

October 6, 2005



Financial Management

Management of the National
Committee for Employer Support of
the Guard and Reserve
(D-2006-006)

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Acronyms

ASD(RA)	Assistant Secretary of Defense for Reserve Affairs
COR	Contracting Officer's Representative
DCC-W	Defense Contracting Command-Washington
ESGR	Employer Support of the Guard and Reserve
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
OMB	Office of Management and Budget
RDD	Regional Deputy Director



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

October 6, 2005

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE FOR RESERVE
AFFAIRS
EXECUTIVE DIRECTOR, NATIONAL COMMITTEE FOR
EMPLOYER SUPPORT OF THE GUARD AND RESERVE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
COMMANDER, DEFENSE CONTRACTING COMMAND-
WASHINGTON

SUBJECT: Report on Management of the National Committee for Employer Support of
the Guard and Reserve (Report No. D-2006-006)

We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report. We considered comments from the Assistant Secretary of Defense for Reserve Affairs and the Executive Director of the National Committee for Employer Support of the Guard and Reserve when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Assistant Secretary of Defense for Reserve Affairs and the Executive Director of the National Committee for Employer Support of the Guard and Reserve concurred with the findings and recommendations. The Commander, Defense Contracting Command-Washington did not comment on Recommendation B.2. Therefore, we request that the Commander, Defense Contracting Command-Washington provide comments on Recommendation B.2. by November 7, 2005.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audrls@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Michael J. Roark at (703) 604-9187 (DSN 664-9187) or Mr. Donald A. Bloomer at (703) 604-8863 (DSN 664-8863). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Wanda A. Scott", is positioned above the printed name.

Wanda A. Scott, Director
Readiness and Logistics Support

Department of Defense Office of Inspector General

Report No. D-2006-006

October 6, 2005

(Project No. D2004-D000LA-0209.000)

Management of the National Committee for Employer Support of the Guard and Reserve

Executive Summary

Who Should Read This Report and Why? Assistant Secretary of Defense for Reserve Affairs (ASD[RA]), Employer Support of the Guard and Reserve (ESGR), Defense Contracting Command-Washington (DCC-W), and other DoD personnel responsible for providing operational support to ESGR should read this report. This report provides information on the administration and management of ESGR operations.

Background. This audit was performed in response to a July 2004 request by ASD(RA). Specifically, ASD(RA) requested (Appendix B) that we review contracts awarded for the last 2 fiscal years, financial records, and the management and control environment of the ESGR.

ESGR is organizationally aligned under the Under Secretary of Defense for Personnel and Readiness and reports through the ASD(RA). ASD(RA) exercises authority, direction, and control; provides guidance and assistance in the development of budgetary requirements; and determines the size and manning distribution of the military staff at ESGR. The Defense Human Resource Activity, a DoD field activity under the Under Secretary of Defense for Personnel and Readiness, provides civilian workforce administration, budgeting, and other support to ESGR. For the contracts discussed in this report, ESGR received contracting support from the DCC-W, the Department of the Interior, and the Department of the Treasury. The DCC-W, a field operating activity within the Office of the Administrative Assistant to the Secretary of the Army, is responsible for executing the DoD Executive Agent mission of providing administrative contracting support to all DoD activities within the National Capital Region.

The mission of ESGR is to gain and maintain active support from both public and private employers for the men and women of the National Guard and Reserves, as demonstrated by employer commitment to employee military service. The ESGR mission is accomplished through recruitment and organization of volunteers carrying the employer support message to the local level. ESGR has 55 committees (1 in each state, the District of Columbia, Guam, Puerto Rico, the Virgin Islands, and Europe) comprised of 4,500 volunteers who carry out the mission. The headquarters for ESGR, comprised of DoD civilians, contractors, and military personnel, administer ESGR activities and provide administrative, logistical, and training support to committee volunteers.

Results. ESGR did not adequately administer and manage aspects of its operations, specifically in the areas of control environment and personnel management, travel and expense accountability, and acquisition and contracting. Improvements in the areas of management accountability and control when implemented will enable ESGR to operate more effectively and efficiently. ASD(RA) should develop and implement procedures to

provide oversight, direction, and control of ESGR operations. ESGR needs to implement a management control program; develop headquarters-level standard operating procedures to address all operating functions, policies, procedures, controls, and organizational relationships; and develop a property management program (finding A).

Contracting procedures in support of ESGR operations were not followed. Specifically, the DCC-W did not properly certify a sole-source justification; and ESGR allowed out-of-scope activity, conducted inadequate surveillance, and did not establish an effective ordering and receiving process for fulfillment contracts. As a result, ESGR cannot be assured that it received the best contracting solutions; it paid fair and reasonable prices for goods purchased; the contractor performed the requirements of the contract; and it received goods purchased. ESGR should develop a surveillance plan to monitor current and future fulfillment and personnel services contracts; develop standard operating procedures for ordering and receiving processes associated with fulfillment contracts, and conduct adequate contract administration and surveillance (finding B). See the Findings section of the report for the detailed recommendations.

Management Comments and Audit Response. ASD(RA) and the Executive Director of the National Committee for ESGR concurred with the findings and recommendations. The Assistant Secretary and the Executive Director have initiated a series of actions to strengthen the management control environment at the ESGR. Those actions, when completed, will bring ESGR in compliance with existing guidance. The Commander, DCC-W did not comment on Recommendation B.2. See the Findings section of the report for a discussion of the management comments and the Management Comments section of the report for the complete text of comments.

Audit Response. Management comments from the Assistant Secretary and the Executive Director were responsive to the report recommendations. Implementation of ESGR actions by the Assistant Secretary and Executive Director should strengthen the ESGR management control environment and enable more efficient and effective operations. We request that the Commander, DCC-W provide comments on Recommendation B.2. by November 7, 2005.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Management Control Program Review	3
Findings	
A. Employer Support of the Guard and Reserve Administration and Management of Operations	5
B. Award and Administration of the Fulfillment and Personnel Services Contracts	14
Appendixes	
A. Scope and Methodology	29
Prior Coverage	31
B. Assistant Secretary of Defense for Reserve Affairs Audit Request	32
C. Report Distribution	33
Management Comments	
Assistant Secretary of Defense for Reserve Affairs and National Committee for Employer Support of the Guard and Reserve	35

Background

In July 2004, the Assistant Secretary of Defense for Reserve Affairs (ASD[RA]) requested (Appendix B) an audit of the financial management and organization operations of the Employer Support of the Guard and Reserve (ESGR). Specifically, the ASD(RA) requested we review contracts awarded during FYs 2003 and 2004, financial records, and the management and control environment of ESGR. ASD(RA) also requested recommendations to improve the financial control environment, ESGR oversight and efficiency, and preclude reoccurrence of existing conditions. In May 2004, ASD(RA) rescinded ESGR authority to commit or obligate Federal funds or enter into any contractual agreement.

Alignment. ESGR is organizationally aligned under the Under Secretary of Defense for Personnel and Readiness and reports through the ASD(RA). ASD(RA) exercises authority, direction, and control; provides guidance and assistance in the development of budgetary requirements; and determines size and manning distribution of the military staff at the ESGR. The Defense Human Resource Activity, a DoD field activity under the Under Secretary of Defense for Personnel and Readiness, provides civilian workforce administration, budgeting, and other support to ESGR.

History. ESGR was established in 1972 by Presidential proclamation. The primary goal of ESGR is to promote cooperation and understanding between Reserve component members and their civilian employers, as well as assist with the resolution of any conflict that might arise from an employee's military commitment. Approximately 46 percent the total available workforce of the U.S. Armed Forces is comprised of the Nation's Ready Reserve¹ component. The 2002 National Defense Strategy states that the National Guard and Reserve, while decreasing in size, will serve as full partners in the fully integrated total force.

Mission. The ESGR mission is to maintain active support from public and private employers for the men and women of the National Guard and Reserves. ESGR pursues that mission through recruiting and organizing volunteers who carry the message of employer support to the local level. Some of the programs and activities that ESGR committees perform include:

- Statements of support - provide a way for employers to publicly demonstrate their support for their National Guard and Reserve employees.
- Bosslifts - provide employers an opportunity to observe the leadership, technical training, and team-building skills in an environment with modern military equipment.

¹ The Ready Reserve is composed of military members of the Reserve and National Guard, organized in units or as individuals, who are subject to recall to active duty to augment the active components.

-
- Briefings with the boss - provide a forum for employers, unit commanders, ESGR members, and community leaders to discuss issues that relate to employee participation in the National Guard and Reserve.
 - Ombudsmen services - provide information and mediation services for Reserve component members and their employers to promote mutual understanding, gain employer support, and ensure compliance with the Uniformed Services Employment and Reemployment Rights Act of 1994.

Uniformed Services Employment and Reemployment Rights Act of 1994.

The Uniformed Services Employment and Reemployment Rights Act of 1994 provides reemployment protection and other benefits for veterans and employees who perform military service. The Act clarifies the rights and responsibilities of National Guard and Reserve members as well as their civilian employers. The ESGR Ombudsmen Services Program provides information, counseling, and informal mediation of issues relating to compliance with the law. Training on the Uniformed Services Employment and Reemployment Rights Act of 1994 is available to all ESGR members, military unit trainers, human resource managers, and other interested parties.

Organizational Structure. DoD Directive 1250.1, “National Committee for Employer Support of the Guard and Reserve (NCESGR),” April 13, 2004, states that the Executive Director manages ESGR programs and directs the activities of ESGR headquarters. ESGR headquarters is made up of DoD civilians, contractors, and military personnel who administer activities for ESGR, as well as provide administrative, logistical, and training support to ESGR committees.

The National Chair is the lead volunteer and responsible for advising the ESGR Executive Director about organizing and directing ESGR activities. Each state, the District of Columbia, Guam, Puerto Rico, the Virgin Islands, and Europe have a committee. ESGR has 55 committees and approximately 4,500 volunteers supporting the ESGR mission. The committees are typically composed of the following types of staff:

- Committee chairperson - leads, directs, and supervises committee activities to link employers with the U.S. military.
- Executive director - provides committee operation continuity and coordination while assisting the committee chairperson.
- Program support specialist² - supports the state or territory National Guard and other Reserve Component offices concerning ESGR programs, program activities, and support requirements.

² An April 2004 Memorandum of Understanding between the National Guard Bureau and ESGR established one full-time program support specialist position to support each ESGR committee.

Budget. From FY 2002 to FY 2003, the budget for ESGR went from \$4 million to \$12 million, an increase of 200 percent, and is projected to remain near \$10 million through FY 2009.

Objectives

Our overall audit objective was to evaluate the operations and financial management of ESGR. Specifically, we determined whether contracting and financial operations were conducted in accordance with applicable policies and regulations. We also reviewed internal controls and the management control program as they related to the overall objective. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the management controls over ESGR operations and financial management. Specifically, we reviewed plans, methods, and procedures ESGR used to meet its missions, goals, and objectives. We determined whether ESGR management controls in the areas of control environment and personnel management, travel and expense accountability, and acquisition and contracting provided reasonable assurance in achieving effective and efficient operations, and complied with applicable laws and regulations. We also reviewed management control procedures for awarding and managing three fulfillment³ and four personnel services contracts in support of ESGR. Additionally, we determined whether contracting officials followed prescribed procedures for awarding and managing the contracts. We reviewed ESGR’s surveillance of contracts and determined whether self-evaluation of management controls adequately met the requirements and intent of DoD Directive 5010.38 and DoD Directive 5040.40.

Adequacy of Management Controls. We identified management control weaknesses for ESGR and Defense Contracting Command-Washington (DCC-W) as defined by DoD Instruction 5010.40. ESGR management controls of the control environment and personnel management, travel and expense accountability, and acquisition and contracting did not ensure effective and efficient operations. DCC-W management controls did not ensure that contracts were awarded in accordance to prescribed policies and procedures. Also, ESGR and DCC-W controls did not ensure that adequate surveillance was performed on the fulfillment and personnel services contracts. The recommendations, if

³ Fulfillment refers to carrying out an order.

implemented, will correct the identified weaknesses. A copy of the report will be provided to the senior officials responsible for management controls in the Office of the Under Secretary of Defense for Personnel and Readiness, ASD(RA), the Department of the Army, ESGR, and DCC-W.

Adequacy of Management's Self-Evaluation. ESGR officials did not identify the control environment and personnel management, travel and expense accountability, and acquisition and contracting aspects of its operations as assessable units; therefore, ESGR did not identify the material management control weaknesses identified by this audit.

In FY 2004 and FY 2005, DCC-W reported no material weaknesses. However, DCC-W identified two areas of concern regarding contract award. The two areas of concern were the application of the urgency exceptions to full and open competition and the need for adequate price reasonableness and single source justification documentation for procurement. DCC-W implemented actions did not correct these weaknesses. DCC-W did not identify contract surveillance as an assessable unit or area of concern and, therefore, did not identify or report the material management control weakness identified by the audit.

A. Employer Support of the Guard and Reserve Administration and Management of Operations

ESGR did not adequately administer and manage aspects of its operations, including the control environment and personnel management, travel and expense accountability, and acquisition and contracting. This condition occurred because ESGR did not have an effective program for management accountability and control. Improvements in these areas are needed and will enable ESGR to operate more effectively and efficiently, and identify weaknesses in the future.

Management Accountability and Control

Federal Policy. Office of Management and Budget (OMB) Circular A-123, “Management Accountability and Control,” June 21, 1995,⁴ defines management controls as the organization, policies, and procedures that agencies use to reasonably ensure that programs achieve their intended results. The circular further states that the agencies must reasonably ensure that resources are used consistent with agency mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making.

OMB Circular A-123 provides guidance for establishing, assessing, correcting, and reporting on management controls in programs and operations and requires the involvement of all management to ensure that management controls are adequate. The circular states that organizations should establish cost-effective management control systems to provide reasonable assurance that program activities are effectively and efficiently managed to achieve the goals of the organization. Appropriate management controls should be established and integrated into each system to direct and guide operations.

The Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government,” November 1999, describes the standards for internal control as control environment, risk assessment, control activities, information and communications, and monitoring. These standards provide a general framework for internal controls and define the minimum level of quality acceptable for internal control in Government, as well as provide the basis against which internal controls are evaluated. The standards apply to all aspects of an agency’s operations: programmatic, financial, and compliance. Management is responsible for developing the detailed policies, procedures, and practices to fit

⁴ OMB issued revised Circular A-123 on December 21, 2004, to be effective beginning with FY 2006. In the interim, Circular A-123 dated June 21, 1995, should continue to be followed.

their agency's operations and for ensuring that the policies, procedures, and practices are an integral part of operations.

DoD Policy. DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, establishes DoD policy for management control. The policy states that each DoD Component must implement a comprehensive strategy for management control to ensure the following: obligations and costs comply with applicable law; assets are safeguarded against waste, loss, and unauthorized use; revenues and expenditures are properly recorded and accounted for; programs and operating functions are efficiently and effectively carried out; the management control process emphasizes prevention of waste, fraud, and mismanagement; and management control weaknesses are corrected in a timely manner.

Internal Controls

ESGR did not adequately administer and manage aspects of its operations, including the control environment and personnel management, travel and expense accountability, and acquisition and contracting. Although specific weaknesses identified were not individually significant, the totality of those weaknesses created an atmosphere conducive to mismanagement and waste.

Internal Control Standards. We identified deficiencies in internal controls related to the control environment, control activities, and information and communication. Effective internal controls require that management establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward control conscientious management. A positive control environment is the foundation for all other standards; it provides discipline and structure as well as the climate that influences the quality of internal control. Control activities are defined as the policies, procedures, techniques, and mechanisms that enforce management's directives. Examples of control activities include management of human capital, accurate and timely execution and recording of transactions, accountability for resources, and appropriate documentation of transactions and internal control. Information should be recorded and communicated to management that will enable them to carry out their internal control and other management responsibilities.

Management Control Program. In January 2005, a senior official from ESGR acknowledged that the organization had not established a management control program. Management controls are especially critical to ESGR for use in guiding the activities and efforts of its volunteers and widely dispersed operations.

Control Environment and Personnel Management

ESGR did not establish a clearly defined organizational structure, did not develop comprehensive policies and procedures, and did not effectively manage their personnel. That condition occurred because ESGR placed little emphasis on establishing controls that would guide the organization in achieving its objectives.

Organizational Structure. A key aspect of an organization's control environment is organizational structure. Such structure provides a framework for planning, directing, and controlling operations. An effective internal control environment requires that an organization clearly define key areas of authority, responsibility, and appropriate lines of reporting. "ESGR Policies and Procedures, Operational Guidelines," issued in December 1997 and 2000, established basic organizational charts and provided brief descriptions of the roles and responsibilities for several ESGR positions. However, the guidance was not of sufficient detail to clearly describe the structure of the organization. For example, although the majority of the ESGR mission is carried out by its volunteers, the "Employer Support Program Guide," issued in October 2003, did not include an organizational chart that depicts how the committees and volunteers are part of the organization. The ESGR organizational chart should show that the 55 committees report to their respective Regional Deputy Directors (RDDs).⁵

Policies and Procedures. ESGR had not established and implemented comprehensive standard operating procedures at its headquarters to ensure its operations were efficiently and effectively carried out. Management is responsible for developing detailed policies, procedures, and practices to fit their agency's operations and for ensuring that internal controls are an integral part of operations. Control activities are an integral part of an entity's planning, implementing, reviewing, and accounting of Government resources and achieving effective results. The absence of an effective program of management controls allowed ESGR officials to make decisions based on personal judgment rather than established policies and procedures. ESGR must establish policies and procedures at the headquarters level to effectively manage the majority of its operations carried out by volunteers throughout the world and to help ensure continuity of operations. ESGR began drafting plans and expects to complete standard operating procedures for National headquarters by October 2005.

Volunteer Agreement. ESGR did not have internal management controls in place to account for and govern volunteer services provided by local committee members. ESGR did not comply with DoD Instruction 1100.21, "Voluntary Services in the Department of Defense," December 26, 2002, because ESGR did not require that their 4,500 volunteers sign the requisite volunteer form, DD Form 2793, "Volunteer Agreement for Appropriated Fund Activities or Nonappropriated Fund Instrumentalities," February 2002. By signing the form, individuals agreed to volunteer service and acknowledge that they were not employed by the U.S. Government. The volunteer agreement states that volunteers are not entitled to salary or benefits and agree to follow applicable laws, regulations, rules, and procedures. Further, the DD Form 2793 must be completed before a volunteer is allowed to provide volunteer services. As a result, ESGR may place the Government at a higher risk of unintended liability.

When the audit team notified an ESGR headquarters official about the requirement to sign volunteer agreements, the official stated that ESGR was taking corrective action to incorporate ESGR as one of the accepted volunteer programs under section E3.2 of DoD Instruction 1100.21. In addition, ESGR

⁵ RDDs are ESGR headquarters officials responsible for supporting ESGR committee operations.

management established a target completion date of October 2005 for obtaining a signed volunteer agreement form from each volunteer.

Regional Deputy Directors. According to an ESGR official, the RDD program was established in 2002. However, ESGR did not develop job descriptions for the five RDDs who act as the headquarters single point of contact in support of ESGR committee operations in their assigned region. RDDs serve ESGR committees by:

- facilitating training, communications, and sharing best practices within their region;
- assisting with developing and executing annual budgets;
- coordinating mobilization and demobilization information and activities; and
- helping with planning and logistical support for committee activities.

ESGR placed little emphasis on establishing procedures for the functions and activities of the RDDs and often relied on informal procedures. As a result, the RDDs performed their duties based on personal interpretation and information obtained from their predecessor. ESGR should clearly establish and define the responsibilities of the RDDs to ensure the RDDs' effectiveness in providing support to ESGR volunteers.

Job Description. The 2003 ESGR Employer Support Program Guide outlines the basic role of the RDDs in support of ESGR committee operations. The RDDs are unique in that no specific military occupation specialty codes are designated for their positions at ESGR. For example, one RDD prepared, for his own personal information, an informal list of responsibilities as an RDD. The list included areas of support for ESGR committees such as providing management guidance and oversight; training, budgetary, and logistics support; attending state committee events; and coordinating employer orientation visits. In April 2005, an ESGR official stated that RDD duties had evolved during the last 9 months and that ESGR planned to codify the job descriptions.

Contract Specialist. ESGR did not effectively manage their contract specialist position. That condition occurred because ESGR management did not hold the contract specialist accountable for functions listed in the position description. The position description states that the contract specialist serves as the procurement manager, contract action officer, and the contracting officer's representative (COR) for ESGR headquarters with the responsibility of administering contracting actions, including:

- preparing statements of work,
- articulating requirements for desired products or services,
- providing/developing justification for other than full and open competition,

-
- establishing an acquisition plan, and
 - conducting price analyses.

ESGR headquarters was unnecessarily duplicating effort and expending resources by relying on other ESGR officials to perform COR duties. Also, ESGR hired a contractor to execute precontract award phase responsibilities for the next ESGR fulfillment contract, even though they had a contract specialist available to perform those same functions. ESGR needs to determine whether it is more cost effective to retain the contract specialist or the contractor, who are both fulfilling the same requirements, and retain only the most cost-effective individual.

Travel and Expense Accountability

Effective control activities for travel and expense accountability include proper execution of transactions and events, accurate and timely recording of transactions and events, maintaining access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal control.

Travel Reimbursement. Before FY 2005, ESGR did not have procedures for submitting, reviewing, and approving reimbursement of expenses ESGR volunteers and employees incurred for official travel. As a result, headquarters personnel primarily relied on informal, often unwritten, procedures, based on their experience, to process and approve travel vouchers.

Travel Reimbursement Process. ESGR Instruction 5000.6, “ESGR Finance SOP [Standard Operating Procedures] for State Support” (Finance SOP), September 30, 2004, establishes detailed policies and procedures to control the use of appropriated funds and ensure that rules and regulations are followed in the expenditure of funds in support of the ESGR mission. Specifically, the Finance SOP delegates the authority to approve temporary duty travel, prescribes the procedures for the supervisory review of travel vouchers, and establishes procedures on temporary duty travel to include the preparation of travel orders and travel vouchers. However, before FY 2005, no formal guidance was in place governing submission and approval of travel vouchers. ESGR Operational Guidelines issued in 1997 and 2000, and the ESGR Employer Support Program Guide issued in 2003, established minimal guidelines on travel vouchers for ESGR committee members. However, that guidance was not adequately detailed regarding ESGR headquarters processes and procedures for reviewing and approving travel vouchers.

Audit Results. We reviewed a judgmentally selected sample of 100 travel vouchers: 50 from FY 2003 and 50 from FY 2004. For the FY 2003 sample, we reviewed 40 vouchers. The remaining 10 vouchers were for cancelled trips or could not be located. For the FY 2004 sample, we reviewed 38 vouchers. Of the remaining 12 vouchers, 6 were for cancelled trips and 6 vouchers could not be located. We examined vouchers to determine whether they were signed and approved, filled out correctly, and included required supporting documentation.

Of the 78 vouchers we reviewed, several vouchers contained errors regarding lodging expenses. Specifically, the FY 2003 sample contained seven vouchers that did not correctly calculate hotel tax, four vouchers that did not fully support lodging costs, and one that incorrectly placed lodging costs in the reimbursable expense column. The FY 2004 sample contained four vouchers for which lodging costs were not fully supported by receipts, one that incorrectly included the cost of movies, and one that reported lodging costs in the wrong box on the form. In addition, three vouchers incorrectly included hotel taxes in their lodging cost and two vouchers did not calculate hotel taxes correctly. Although the errors and inconsistencies were of a small dollar value and were not material in nature, they demonstrate the need to strengthen internal controls of the approval of travel vouchers.

Expense Reimbursement. Before FY 2005, ESGR did not have adequate written procedures for submitting, reviewing, and approving reimbursement for personal expenses that ESGR volunteers and employees incurred in support of ESGR activities. In addition, ESGR did not have procedures to properly account for ESGR property assets retained to support ESGR committee activities and reimbursed by way of SF 1034, "Public Voucher for Purchases and Services other than Personal," October 1997. ESGR officials stated that headquarters personnel primarily relied on informal, often unwritten, procedures that were based on personal experience to process and approve SF 1034 vouchers.

Expense Reimbursement Process. The ESGR Finance SOP established formal policies and procedures for reimbursing ESGR committee members for personal expenses using the SF 1034 voucher. Before FY 2005, there was no guidance to govern submission and approval of SF 1034 vouchers. ESGR Operational Guidelines and the ESGR Employer Support Program Guide established minimal guidelines on SF 1034 vouchers for ESGR committee members. However, this guidance did not provide adequate detail regarding allowable expenses or how to properly complete the form. The guidance also did not document ESGR headquarters processes and procedures for reviewing and approving SF 1034 vouchers.

Audit Results. We reviewed a judgmentally selected sample of 80 ESGR SF 1034 vouchers: 40 from FY 2003 and 40 from FY 2004. We reviewed vouchers for proper approval, supporting documentation, and reasonableness of expenses claimed. The SF 1034 vouchers reviewed generally were completed, approved, and properly supported. However, property accountability procedures were identified during this audit as an area of concern where stronger internal controls are needed.

For example, during FY 2003, ESGR employees and committee members purchased and were reimbursed for property such as digital cameras and projectors intended for long-term ESGR committee use. However, ESGR had no property accountability records to show how many assets ESGR volunteers acquired. To maintain proper accountability for ESGR assets used by volunteers, ESGR should develop and implement management controls for property inventory that clearly demonstrates accountability for these assets.

Management Actions. In early 2005, ESGR took several steps designed to strengthen controls over the SF 1034 reimbursement process. Specifically, ESGR issued two policy memorandums to establish guidance for submitting SF 1034 vouchers and established new procedures to strengthen management controls over property accountability.

ESGR Operational Memorandum 2005-01, "Use of Standard Form 1034," February 3, 2005, contains a list of general guidelines for the use of SF 1034 vouchers. The list includes examples of items authorized for reimbursement, items authorized that require prior ESGR approval, and items that are not authorized. In addition, ESGR Operational Memorandum 2005-02, "Budget Support to State Committees," March 15, 2005, states that in the future, ESGR "hopes that volunteers will not be required to make out-of-pocket expenses to the extent that is currently occurring." The memorandum also states that the SF 1034 is the only method to reimburse volunteers, but that the approach is cumbersome, lengthy, and incurs substantial processing charges. An ESGR official stated the policy revisions to the two operational memorandums were part of the ESGR goal to reduce the use of SF 1034 vouchers and encourage the use of other methods, such as military interdepartmental purchase requests or contracts to pay for ESGR events. An ESGR official noted that prior to that effort, property accountability procedures were left to the discretion of each ESGR committee and were not consistent from one committee to another.

Acquisition and Contracting

Internal control standards ensure compliance with applicable laws and regulations (such as the Federal Acquisition Regulation [FAR]) and the proper execution and recording of transactions and events. We evaluated the basis for sole-source awards and ESGR oversight procedures for ensuring compliance with the statements of work. Finding B of this report discusses ESGR procedures regarding acquisition and contracting.

ASD(RA) Oversight

The ASD(RA) is responsible for exercising authority, direction, and control over ESGR. In May 2004, the ASD(RA) rescinded the authority of ESGR to commit or obligate Federal funds or enter into any contractual agreement. When ESGR has those authorities reinstated, ASD(RA) should establish a program to oversee and monitor ESGR operations.

Conclusion

ESGR did not adequately administer and manage aspects of its operations, including control environment and personnel management, travel and expense accountability, and acquisition and contracting. Although management initiated recent actions to improve management accountability and control, effectiveness

of those actions is uncertain. A management and organizational culture that used personal experience in place of standardized procedures and was lax in applying and adhering to rules must be changed. Unless a strong and effective program for management accountability and control is fully developed and maintained, ESGR will remain at significant risk for fraud, waste, and abuse.

Management Comments on the Finding and Audit Response

Assistant Secretary of Defense for Reserve Affairs and the Executive Director, National Committee for Employer Support of the Guard and Reserve. ASD(RA) and the Executive Director, National Committee for ESGR responded jointly concurring with the report and described a series of ongoing or completed actions that would implement the audit recommendations. The ASD(RA) also stated that his office is developing and implementing procedures to ensure sufficient oversight of ESGR activities. Additionally, the ASD(RA) stated that ESGR will develop a management control program to comply with DoD guidance; develop standard operating procedures; establish organizational structures, reporting relationships, and position descriptions; and implement a series of other controls to enable ESGR to operate more efficiently.

Audit Response. We commend the Assistant Secretary and the Executive Director for the actions initiated. We appreciate the assistance they and their staffs provided during the audit.

Recommendations

A.1. We recommend that the Assistant Secretary of Defense for Reserve Affairs develop and implement procedures for providing oversight, direction, and control of National Committee for Employer Support of the Guard and Reserve operations, as established by DoD Directive 1250.1.

A.2. We recommend that the Executive Director, National Committee for Employer Support of the Guard and Reserve:

a. Implement a Management Control Program that fully complies with DoD Directive 5010.38.

b. Finalize an organizational chart that clearly defines organizational structure and reporting relationships.

c. Develop headquarters-level standard operating procedures. At a minimum, the standard operating procedures should incorporate all operating functions, policies, procedures, controls, and organizational relationships.

d. Require each volunteer to sign, and periodically update, a volunteer agreement form in accordance with DoD Instruction 1100.21.

e. Develop and issue a position description for the Regional Deputy Directors describing their roles and responsibilities.

f. Perform an analysis to determine whether it is more cost effective to retain the contract specialist or the contractor, who are both fulfilling the same requirements, and retain only the most cost-effective personnel.

g. Establish controls to ensure that all travel vouchers are prepared and approved in accordance with the Joint Travel Regulations and the Joint Federal Travel Regulations.

h. Develop a property management program that requires specific accountability for nonexpendable items, pilferable items, information technology equipment, and other items as identified by the Employer Support of the Guard and Reserve.

i. Develop and implement procedures that describe the roles and responsibilities of all personnel involved in the processing of travel and personal expense reimbursement vouchers.

B. Award and Administration of the Fulfillment and Personnel Services Contracts

Contracting procedures in support of ESGR operations were not followed. Specifically, a sole-source justification was not properly certified, out-of-scope activity was permitted, inadequate surveillance was conducted, and ordering and receiving processes were ineffective. Those conditions occurred because FAR requirements were not followed and existing management controls were ineffective. As a result, ESGR cannot be assured that it was provided the best contracting solutions; it paid fair and reasonable prices for the goods purchased; the contractor performed the requirements of the contract; and it received the goods purchased.

Contracts Reviewed

Contracting Support

For the contracts discussed in this finding, ESGR received contracting support from the DCC-W, the Department of the Interior, and the Department of the Treasury. DCC-W, a field operating activity within the Office of the Administrative Assistant to the Secretary of the Army, is responsible for executing the DoD Executive Agent mission of providing administrative contracting support to all DoD activities within the National Capital Region.

Fulfillment Contracts

We reviewed three contracts that the DCC-W awarded on February 5, 2002, June 1, 2003, and January 31, 2005, to provide comprehensive fulfillment and fully integrated advertising and marketing services in support of ESGR. The cost for the three contracts totaled approximately \$5.3 million. Table 1 lists the three fulfillment contracts.

Table 1. Fulfillment Contracts					
	Contract Number	Contracting Office	Contractor	Award Date(s)	Award Amount
1	GS--07F-0386K DASW01-02-F-0522	DCC-W	Odyssey	Feb. 5, 2002 Aug. 2002 - July 2003	\$220,000
	Modifications				(+) 907,500
					\$1,127,500
2	GS-07F-0493M DASW01-03-F-0781	DCC-W	Odyssey	June 1, 2003 Aug. 2003 - Jan. 2005	\$1,157,782
	Modifications				(+) 1,747,728
					\$2,905,510
3	W74V8H-05-P-0252	DCC-W	Odyssey	Jan. 31, 2005	\$1,222,439
Total					\$5,255,449

DCC-W awarded the three contracts on a sole-source basis⁶ to the Odyssey Imaging Group, Incorporated (Odyssey), of Alpharetta, Georgia. DCC-W used the General Services Administration Federal Supply Schedule to award the firm-fixed-price contracts with appropriated funds from the Government.

Personnel Services Contracts

We also reviewed four personnel services contracts⁷ in support of ESGR. The contracts provided personnel support for functions such as strategic planning, public relations, ombudsman services, administrative support, and other mission-essential areas. Table 2 lists the four personnel services contracts.

⁶ See the Basis for Sole-Source Awards section of this Finding for a discussion on the justifications cited as the basis for the sole-source awards.

⁷ For the purposes of this report, “personnel services contracts” provided services that were identified by ESGR to supplement their existing staff.

Table 2. Personnel Services Contracts					
	Contract Number	Contracting Office	Contractor	Award Date(s)	Award Amount
1	DASW01-02-P-0488 Modification	DCC-W	AM and PM	Mar. 19, 2002 Apr. 1, 2002	\$16,800
					40,000
					\$56,800
2	DASW01-02-P-0738 Modifications	DCC-W	AM and PM	July 11, 2002 July-Oct. 2002	\$77,967
					100,000
					\$177,967
3	FedSource Interagency Agreement Interagency Agreement	Department. of the Treasury	Kelly Services	Jan. 1, 2002 Sept. 26, 2003	\$1,922,350
					1,288,586
					\$3,210,936
4	NBCHD030029 Task Order D0300290001 Task Order D0300290003 Modifications Task Order D0300290031 Modifications	Department of the Interior	TKC Communications	Mar. 1, 2004 May 1, 2004 July-Nov. 2004 Dec. 16, 2004 Feb. 2005	\$425,820
					1,223,762
					87,144
					1,295,482
					0
					\$3,032,208
Total					\$6,477,911

AM and PM, Incorporated. In support of ESGR, DCC-W awarded two consecutive contracts to AM and PM, Incorporated (AM and PM), for preparation of a business process analysis. DCC-W modified the first contract by extending the contract's performance period to allow AM and PM to implement recommendations resulting from the business process analysis. After completion of that contract, DCC-W then awarded AM and PM a sole-source contract to continue implementation of recommendations resulting from the business process analysis. DCC-W also modified the second contract to extend the period of performance and increase the overall contract value.

FedSource and Kelly Services. ESGR signed two Interagency Agreements with FedSource, a franchise of the Department of the Treasury, for Project Task Support Services. FedSource then subcontracted all work for ESGR to Kelly Services. The Project and Task Support Services were strictly for labor hours. FedSource awarded 36 task orders for FY 2003, and 31 task orders for FY 2004 against the contract for services in functional areas such as finance, information technology, and general administrative support. As of April 2004, FedSource ended current and future task order support because of ESGR noncompliance with FedSource's task order procedures.

TKC Communications. In February 2004, the Department of Interior awarded an indefinite-quantity, indefinite-delivery, time and materials contract to TKC Communications (TKCC), an 8(a) Alaskan Native Corporation⁸. The purpose of the contract was to support initiatives for computer, network, telecommunications, management, construction, and data and communications infrastructure. All supplies and services were obtained through individual task orders. ESGR placed three task orders against the TKCC contract for project task support services. In June 2004, the ASD(RA) requested removal of the inherently governmental tasks and the related or supporting contractors, because

the Statement of Work (SOW) tasks the contractor to perform inherently governmental functions (which should never have been included in the contract), and second, specific individuals working as contractors for TKCC have acted inappropriately.

In July 2004, ESGR and the Department of Interior modified the second task order to remove the inherently governmental tasks as well as the two contractors who performed the tasks, which decreased the value of the task order.

Criteria

The Federal Acquisition Regulation (FAR) and the Defense FAR Supplement are the primary criteria governing contracting for goods and services. The regulations require orderly processes that include an analysis of the requirements and various types of contracts to use, determinations as to whether fair and reasonable prices are paid, and oversight of contractor performance and billing after the contract award.

The FAR describes measures that contracting officers must follow to award contracts and requires that contracting officers must not award contracts unless all of the regulations have been met and that purchases are made at fair and reasonable prices. Additionally, DoD Regulation 7000.14-R, "Financial Management Regulation," requires that DoD Components establish appropriate internal controls that will ensure the financial data provided is accurate, complete, and supportable, and requires sufficient documentation be maintained to support the acceptance of goods from a contractor.

Basis for Sole-Source Awards

Fulfillment Contracts

DCC-W awarded a sole-source fulfillment contract to Odyssey in 2005 valued at \$1.2 million to support ESGR operations. That contract included a sole-source

⁸ An 8(a) Alaskan Native Corporation is eligible to receive sole-source contracts exempt from threshold limitations.

justification that was not properly certified. FAR Part 8, which governs acquisition of supplies and services from or through Government supply sources, contains language in Subpart 8.405-6 stating that an ordering activity using Federal Supplies Schedules shall prepare a sole-source justification using Subpart 6.303-2. DCC-W did not comply with FAR Subpart 6.303-2(a)(12), which requires that the contracting officer certify that the justification is accurate and complete to the best of their knowledge and belief. In 2004, DCC-W changed their procedures to require that the Director of Contracting sign sole-source justifications. However, DCC-W awarded the 2005 fulfillment contract as a sole-source contract without the proper certification from the Director of Contracting.

In addition, the sole-source justification for the 2005 contract lists the Odyssey database as one reason for issuing a sole-source contract. Under the terms of the contract, ESGR will pay \$125,000 to Odyssey for data developed under the fulfillment contracts; however, Odyssey provided that data in its invoice to ESGR on a monthly basis since the award of the 2003 fulfillment contract. Because ESGR did not keep the data Odyssey provided each month, ESGR must pay the contractor to recreate the data.

While reviewing the contract files, we became aware of two additional concerns that related to the contracting documents that supported the fulfillment contracts awarded in 2002 and 2003. One concern was the approval of the 2005 sole-source justification without addressing an issue identified before the award of the 2003 fulfillment contract. In 2002 and 2003, DCC-W stressed that ESGR should solicit the items by way of full and open competition in the future. Although ESGR agreed that future fulfillment contracts should be awarded through full and open competition, the 2005 fulfillment contract was awarded as a sole-source contract. The other concern pertained to the FAR criteria in effect at the time of the award of the 2002 fulfillment contract, which stated that orders placed against Federal Supply Schedules are considered issued using full and open competition, thus eliminating the need for a sole-source justification. The FAR requires that officials consider available information about the supplies or services offered under Federal Supply Schedule contracts by using the GSA Advantage! on-line shopping service or by reviewing the catalogs or pricelists of at least three schedule contractors.

Although not required by the FAR, DCC-W maintained a sole-source justification for the 2002 fulfillment contract prepared by an ESGR official in the contracting files. Before May 11, 2005, on two separate occasions, DCC-W officials provided a copy of the 2002 sole-source justification. However, no evidence existed that the contracting officer reviewed and approved the document. On May 12, 2005, DCC-W provided a third copy of the 2002 sole-source justification; that copy was signed by the contracting officer and dated January 30, 2002 (the same date of the contract award). When we brought the inconsistency to the attention of DCC-W officials, they admitted that the contracting officer had actually signed and dated the document on May 11, 2005. DCC-W could not explain why the contracting officer backdated the sole-source justification, prepared by ESGR, and included it in the official contract file when it was not required by the FAR when the contract was awarded.

Out-of-Scope Activity

Fulfillment Contracts

A considerable amount of work was accomplished outside the scope of the 2005 fulfillment contract. Specifically, ESGR volunteers⁹ did not state in their orders how the funds were used; ESGR did not provide volunteers guidance so they could explain how the funds were used; and ESGR made changes to the technical exhibit under which ESGR and Odyssey operated as of April 2005 without modifying the contract.

Contract Scope. DCC-W awarded the 2005 fulfillment contract to Odyssey to:

Provide comprehensive fulfillment and fully integrated advertising and marketing services to support the ESGR and for the ESGR national organization managed through the ESGR Headquarters. The period of performance is 8 months. The services are “similar in nature” to those found in many GSA schedule contracts . . . These items are purely commercial in nature, as are the services being provided, and can therefore be obtained using Simplified Acquisition Procedures. Refer to Technical Exhibit-1 for fulfillment support items.

Official Representation Funds. Section 2241(c), title 10, United States Code, enacted by Section 518 of the National Defense Authorization Act for FY 2004 (Public Law 108-136, November 24, 2003) authorized ESGR to use appropriated operation and maintenance funds for official receptions, representation, and advertising activities for ESGR to further employer commitments to the employees who are members of a reserve component. The Under Secretary of Defense for Personnel and Readiness delegated authority to regulate the expenditures of operation and maintenance funds by ESGR for advertising activities and materials to ASD(RA). DoD Directive 7250.13, “Official Representation Funds (ORF),” February 17, 2004, states that ESGR expenditures of appropriated funds for official reception and representation activities shall be made in a manner consistent with the guidance established in the Directive.

Use of Funds. ESGR did not provide procedures or guidance to their volunteers to indicate in their orders how funds were used (as official representational funds, operation and maintenance, or advertising and marketing). This lack of guidance prevented volunteers from being able to code their orders in accordance with the terms of the contract. Instead, ESGR required that Odyssey enter the codes for each order. Both of those methods violated the terms of the contract. In March 2005, ESGR changed their process again and required that an ESGR headquarters official assign the fund codes; however, ESGR did not modify the contract to reflect that change.

⁹ The COR was responsible for providing written authorization for ESGR staff who could use the on-line store to place orders, and Odyssey was responsible for ensuring that only authorized individuals submitted orders.

Technical Exhibit 1 - Listing of Items. The listing of items in the 2005 fulfillment contract was not an accurate representation of the items ESGR wanted its committees to purchase. In October 2004, the ESGR contract specialist obtained a listing from Odyssey of the items sold to ESGR customers since 2002. The contact specialist incorporated that list into the Technical Exhibit section of the 2005 contract, which contained 339 line items. However, according to Odyssey, approximately 60 percent of those items would not be purchased by ESGR under the 2005 contract.

After the award of the January 2005 contract, a senior ESGR official created a revised Technical Exhibit, "2005 ESGR Advertising and Official Representation Fund Items," to reflect actual items ESGR would purchase from Odyssey. ESGR revised the list to comply with the Under Secretary of Defense for Personnel and Readiness requirement to properly account for all funds. The revised Technical Exhibit contained 276 line items and was approved by ASD(RA) on March 4, 2005. ESGR required that Odyssey use the revised Technical Exhibit when they fill orders from ESGR committees. However, the contract was not modified to incorporate the revised Technical Exhibit; therefore, ESGR violated the terms of the contract. Additionally, ESGR and Odyssey both acknowledged that the March 2005 list of items did not accurately reflect the items ESGR intended for its committees to purchase. In April 2005, the ESGR Director of Current Operations, who also serves as the COR, met with Odyssey to develop yet another list of items for the Technical Exhibit.

Personnel Services Contracts

ESGR allowed considerable work to be performed that was outside the scope of both the FedSource and TKCC contracts.

FedSource. FedSource officials stated that the ESGR task orders with Kelly Services were for labor hours only. However, FedSource rejected approximately \$230,000 worth of invoices, dated from October 2003 through February 2004, from Kelly Services because of inappropriate expenses from contract employees. Inappropriate expenses included unapproved travel to Kuwait and Iraq; a lease for office space; and the purchase of inappropriate items such as uniforms, towels, vacuum cleaners, hardware, shelving, meals, and airfare for multiple people.

FedSource met with ESGR on several occasions from May 2003 through February 2004 to discuss inappropriate charges against the task orders. After a November 2003 meeting to obtain a better understanding of the ESGR mission, FedSource told ESGR they could convert some of the task orders to time and materials. FedSource requested a list of allowable expenses from ESGR; however, ESGR never provided the list. In February 2004, FedSource terminated all task orders, effective April 2004, because ESGR did not comply with FedSource's task order procedures. As of August 2005, FedSource had not resolved \$161,562 of disputed charges with Kelly Services.

TKCC. For the TKCC task orders, ESGR allowed contractors to perform out-of-scope activities and to purchase items that appear to be outside the scope of their task orders. The following examples describe those conditions.

Out-of-Scope Activities. In April 2004, the Strategic Planner/Technical Director submitted an invoice to TKCC for approximately \$2,100 worth of expenses. Those expenses were incurred by the Contracting and Acquisition Specialist, not the Strategic Planner/Technical Director. Additionally, approximately \$1,400 of the \$2,100 of expenses were incurred during January and February of 2004; however, the effective date of the Contracting and Acquisition Specialist's task order was March 1, 2004. Therefore, the Strategic Planner/Technical Director was reimbursed for expenses incurred by the Contracting and Acquisition Specialist at a time when the Contracting and Acquisition Specialist was not part of the task order.

According to the ESGR statements of work and the TKCC proposals, all staff positions were to be located at ESGR headquarters in Arlington, Virginia, except for the California-based Information Technology and Administrative Services position (California-based contractor). TKCC invoices show that several positions were not based at ESGR headquarters. According to ESGR, the Public Relations Specialist, Volunteer Recruitment and Retention Service, FY 2004 National Employer Outreach Program Coordinator, Community Relations Specialist, Strategic Planner/Technical Director Services, and Contracting and Acquisition Specialist Services positions were each based at their respective residences instead of ESGR headquarters, as required.

The California-based contractor was responsible for full-time technical and administrative services that support the ESGR California-based activities as well as its National Chairman. In a September 2004 invoice, the California-based contractor claimed approximately \$4,500 for a 3-week trip in August 2004 to Washington, D.C. According to the invoice, the purpose of the trip was to prepare for the Secretary of Defense Employer Support Freedom Awards. ESGR could not explain how the trip related to the responsibilities of the position or why that work was not performed by a member of the ESGR headquarters staff or the ESGR Public Relations Specialist, who is responsible for coordinating activities for the ESGR annual presentation of the Secretary of Defense Employer Support Freedom Awards. In September 2004, the California-based contractor returned to Washington, D.C. to attend the Secretary of Defense Employer Support Freedom Awards at a cost of more than \$3,000. ESGR could not explain why attending the event was necessary for the California-based contractor. In May 2005, the COR notified the California-based contractor that travel costs would no longer be approved by ESGR because those costs were outside the scope of assigned tasks.

Another example of out-of-scope activity regarding the California-based contractor was that the task order did not contain specific duties to perform. The task orders stated that the position was for administrative services supporting the California-based National Chairman of ESGR. The task order also stated that the office space for the contractor shall be co-located with the person supported. The National Chairman stated that he refused to take the position without someone to perform administrative tasks. ESGR needs to clearly define specific duties for the California-based contractor to alleviate the ambiguity of her position description.

Out-of-Scope Items Purchased. ESGR allowed the Strategic Planner/Technical Director to purchase items that appeared to be outside the scope of his position description. According to the contractor's proposal, the

Strategic Planner/Technical Director was responsible for drafting and updating a strategic plan as well as other duties including the management and administration of information technology projects. ESGR approved an April 2004 invoice for \$3,000 for the purchase of cables, software, hubs, and office supplies. According to an ESGR official, ESGR requested approval from ASD(RA) for the information technology supplies, but was denied. As a result, the Strategic Planner/Technical Director personally purchased the information technology supplies and was subsequently reimbursed for them by ESGR. Additionally, in an April 2004 invoice, the Strategic Planner/Technical Director claimed expenses of approximately \$5,000. However, those expenses were incurred in January and February 2004 prior to the award of the TKCC task order in March 2004. Also, in a January 2005 invoice, the Strategic Planner/Technical Director received reimbursement for a June 2003 function at the Army Navy Club, Washington, D.C., for “room rental, a la carte catering, non-alcoholic bar service, and gratuity” at a cost of approximately \$3,000.

ESGR also allowed the Deputy Director for the Southwest Area to purchase items that appeared to be outside the scope of his tasks. His position description states that he is responsible for focusing on the strategic mission of the ESGR California committee. However, in a March 2004 invoice, the Deputy Director purchased computer dial-in parts, Internet access, and facsimile machine parts while in a travel status to Jefferson City, Missouri. The purchase of those materials, as well as the trip itself, does not directly relate to that position’s responsibilities as defined in the task order.

Those two examples occurred because ESGR did not develop a list of allowable costs when preparing their statements of work. Specifically, the statements of work did not identify allowable material costs or dollar limitations for those costs and contained a position description that was vague. These shortfalls permitted contractors to purchase items that appear to be outside the scope of their task orders.

Contract Surveillance

Fulfillment Contracts

The surveillance that ESGR and DCC-W conducted on the three fulfillment contracts was not adequate. In addition, individuals assigned to perform surveillance did not have clearly established roles and responsibilities, were not trained before being assigned surveillance responsibilities, and could not provide any assurance that the Government received what it paid for. Those conditions occurred because ESGR and DCC-W did not develop and implement a surveillance plan for the fulfillment contracts. As a result, ESGR and DCC-W did not properly administer the fulfillment contracts, could not be certain that the contractor was performing in accordance with contract requirements, and could not determine whether funds were properly used and accounted for.

Surveillance and documentation of surveillance activities are required by both the FAR and the Defense FAR Supplement. Documentation is necessary to help ensure accountability over the surveillance process. Surveillance involves Government oversight of contractors with the purpose of ensuring that the contractor performs the requirements of the contract and that the Government receives the goods or services as intended. FAR Subpart 46.401 states that quality assurance surveillance plans should be prepared in conjunction with the preparation of the statement of work and that plans should specify all the work requiring surveillance as well as the method of surveillance. The contracting officer is responsible for assigning surveillance personnel and ensuring that surveillance is conducted on the contract.

According to the Defense FAR Supplement Subpart 201.602-2, contracting officers may designate, in writing, qualified personnel as their authorized representatives to assist in the technical monitoring or administration of a contract (a COR). The COR is required to maintain adequate records that sufficiently describe the performance of COR duties.

Surveillance Assignment, Training, and Documentation. DCC-W and ESGR officials could not provide documentation, such as a surveillance plan and specific roles and responsibilities, describing how the COR conducted surveillance. Also, the COR did not receive training on surveillance responsibilities. During the 2003 fulfillment contract, the COR left the organization in July 2004. According to ESGR, another official assumed surveillance responsibilities when the initial COR left; however, the second official left the organization in December 2004. Therefore, a third ESGR official assumed surveillance responsibilities and began performing those functions in December 2004. In both cases, no official designation of authority was completed and the contracts were not modified to reflect this change in personnel.

For the fulfillment contract awarded in January 2005, a COR was designated in the contract. However, DCC-W did not prepare the COR appointment letter until April 2005. The appointment letter described the roles and responsibilities of the COR. The COR received training in November 2004 and served as acting COR from the contract award date until the official appointment date.

Personnel Services Contracts

ESGR performed inadequate surveillance on the three TKCC task orders. Individuals assigned to perform surveillance did not develop a quality assurance surveillance plan, were not trained prior to being assigned surveillance responsibilities, and failed to provide reasonable assurance that the Government received what it paid for. As a result, ESGR was not properly administering the TKCC task orders and could not be certain that the contractor performed in accordance with contract requirements.

For each of the task orders, the Department of the Interior contracting officer designated an ESGR official as the COR and clearly defined the roles and responsibilities associated with the position, including monitoring and verifying the contractor's performance and maintaining adequate records that sufficiently

describe the performance of those duties. However, the surveillance the CORs conducted was inadequate.

Proper surveillance of the contractor's performance under the task orders was especially critical because the work was performed on a time and materials basis, where services are billed on the basis of direct labor hours at specified fixed hourly rates. According to the FAR Subpart 16.601, time and materials contracts require appropriate Government oversight because incentives do not exist for the contractor to control costs or to be efficient.

An ESGR official stated that he was unofficially performing the COR duties since July 2004, when the previous COR left ESGR. However, that ESGR official did not receive training to perform COR duties until February 2005. The COR did not have a surveillance plan, but stated that he conducted surveillance by reviewing contractor invoices and supporting documentation and by relying on department heads to determine if work was being completed.

Based on the review of the TKCC invoices and supporting documentation related to the ESGR task orders, ESGR approved expenses that were excessive, improper, and unsupported. For example, from May through October 2004, ESGR reimbursed a contract employee for per diem charges of approximately \$27,000. According to the task order, all services and positions were based at ESGR headquarters in Arlington, Virginia. However, the contractor was reimbursed for temporary duty costs (airfare, lodging, and meals) incurred traveling to and from work at headquarters. Additionally, ESGR approved:

- invoices with missing or inadequate receipts totaling approximately \$2,300;
- oversized vehicles, such as a 5-day rental for a Jeep Cherokee for \$650 and a 4-day rental for a Chevy Suburban for \$885;
- airfare for travel by a contractor's family member;
- first class airfare to multiple locations;
- monthly cellular phone charges up to \$340; and
- taxi cab expenses of \$134 despite the reimbursement for a rental car.

ESGR officials also approved other minimal charges purchased by contracted employees during temporary duty status for hotel videos, gift shop purchases, hotel pet charges, banner signs, overstated travel mileage, incorrect meals and incidental expenses, and various types of training books. While those other charges were individually low in dollar value, they were excessive, improper, and unsupported. ESGR needs to perform better surveillance on the personnel services contracts to ensure resources are not wasted in the future.

Fulfillment Process

ESGR did not provide effective administration and oversight of the contract fulfillment process. ESGR had limited, if any, visibility of the items the volunteers ordered. Specifically, volunteers were allowed to order items, and thereby commit and obligate Government funds, without Government approval. ESGR officials approved invoices for payment without verifying whether the Government received the items. ESGR lacked effective procedures and controls over the fulfillment process, in part because ESGR felt controls would place a burden on volunteers. In addition, when we requested an explanation of the fulfillment process from ESGR, we were directed to ask the contractor.

DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 6A, Chapter 2, requires that DoD Components establish appropriate internal controls to ensure that data provided to Defense Finance and Accounting Services and recorded in the accounting system is accurate, complete, and supportable. The regulation also requires that audit trails are maintained in sufficient detail to permit tracing of transactions from their sources and to provide documentary support. In addition, the regulation states that the acceptance of contractor products should be documented by an inspection or receiving report. Further, Volume 10, Chapter 1 of the DoD Financial Management Regulation requires that a receiving report should be prepared at the time of delivery and forwarded to the designated agency office by the fifth working day after acceptance. The regulation states that a receiving report include: vendor name, contract number or other delivery authorization, item description, unit of measure, quantity received, date of receipt, date of acceptance, and name, title, telephone number, mailing address, and signature of the accepting or approving official.

Ordering and Receiving Process. According to the 2005 fulfillment contract, ESGR was required to authorize in writing ESGR personnel who have permission to place orders. We requested the list from ESGR, but were directed to Odyssey to obtain the information. We visited Odyssey in February 2005 and obtained the list. According to Odyssey, the information was based on a list ESGR provided to them in July 2003. The list contained the names of 149 people and consisted of the chairs of ESGR committees, executive directors, and program support specialists.

The list of 149 names did not contain any individuals from ESGR headquarters. According to an Odyssey official, Odyssey used the 2003 list, maintaining and updating as needed to fulfill orders. If someone not on the authorized list placed an order, Odyssey asked an authorized volunteer from the list for approval before processing.

Odyssey handled everything from maintaining the list of authorized orderers to documenting and tracking all the items purchased by ESGR headquarters and its 55 committees. ESGR did not have documentation on items purchased from Odyssey or information about whether the items ordered were received. An ESGR official stated that if a volunteer did not receive all of the items ordered, the volunteer would resolve any differences with Odyssey.

Before March 2005, no Government official actually approved items ordered by committee members, which resulted in volunteers committing and obligating Government funds. ESGR changed their process after we brought that fact to their attention. As of March 2005, an ESGR headquarters official approves each order.

Invoice Validation Process. ESGR approved invoices for payment without sufficient evidence that the Government received the items. ESGR officials indicated that they decided whether items ordered from Odyssey were “received, inspected, and accepted and conformed to the contract,” based on verbal confirmation or e-mail. ESGR did not establish procedures for reconciling the items purchased to the items that Odyssey invoiced. As a result, transactions could not be traced and ESGR could not ensure that the invoices were correct.

After the end of each month, Odyssey sent an invoice and purchase reports supporting the amount invoiced to the ESGR Finance Officer and COR. The purchase reports showed Sales by Region, Sales by Item, and Sales by Customer, as well as other categories. The COR forwarded the Sales by Region report, which contained each purchase transaction made during the course of the previous month by each of the 55 committees, to the RDDs by way of e-mail. The COR instructed the RDDs to extract the purchase transactions their respective committees made and verify whether the items were received.

After the COR receives e-mails from each RDD indicating that the committees within their region received the items listed in the Sales by Region report, the COR indicates that the items were received, inspected, and accepted and conformed to the contract by checking those blocks on SF 1449, “Solicitation/Contract/Order for Commercial Items,” October 1995. The COR signs the form as the authorized Government official and forwards it to the ESGR Finance Officer. The ESGR Finance Officer ensures that the amount on the invoice matches the amount that the authorized Government official is approving for payment. The ESGR Finance Officer then signs the forms as the certifying officer, indicating that the invoice was correct and proper for payment. An official in the Finance Office records the invoice amount in a spreadsheet, then forwards the invoice to the Defense Finance and Accounting Service for payment.

The ESGR Finance Office maintained the fulfillment contract invoice file, which consisted of copies of invoices and SF 1449s. However, the file did not contain ordering or receiving reports to reconcile the contractors’ invoices. When we asked ESGR for a list of items ordered to support the invoices being paid, we were directed to Odyssey. Consequently, the COR could not ensure all the items in the contractors’ invoices were ordered and received by ESGR committees. Both the COR and the certifying officer stated that they believed that e-mail or verbal confirmation from committee and contractor invoices were sufficient support for invoice validation.

Conclusion

Contracting procedures in support of ESGR operations were not followed. Specifically, a sole-source justification was not properly certified, out-of-scope activity was permitted, inadequate surveillance was conducted, and ordering and receiving processes were ineffective. For the fulfillment contracts, ESGR could not be assured that it was provided the best contracting solution, paid fair and reasonable prices for goods purchased, or that the contractor delivered the goods. During the administration of the personnel services contracts, ESGR should have been more observant about the charges being approved. Recommendations to address the weaknesses associated with management controls were made in Finding A.

Recommendations, Management Comments and Audit Response

B.1. We recommend that the Executive Director, National Committee for Employer Support of the Guard and Reserve:

a. Develop a surveillance plan for current and future fulfillment and personnel services contracts. At a minimum the surveillance plans must specify all the work requiring surveillance and the method of surveillance.

b. Account for all items ordered and received under the fulfillment contract with supporting documentation.

c. Develop a list of tasks that clearly defines the responsibilities of the California-based Information Technology and Administrative Services position for inclusion in the current personnel services task order as well as future task orders or contracts.

d. Develop standard operating procedures for the ordering and receiving processes associated with the fulfillment contract.

e. Fulfill orders according to the listing of items in the 2005 fulfillment contract or modify the contract to incorporate an updated listing of items.

f. Ensure the contracting officer representatives for the fulfillment and personnel services contracts comply with roles and responsibilities defined in the contracting officer representative appointment letter.

g. Develop a list of allowable “Other Direct Costs” as well as dollar limitations for those costs for inclusion in the current personnel services task order as well as future task orders or contracts.

h. Ensure that all personnel responsible for contract administration are trained to perform their responsibilities associated with surveillance and travel regulations.

Executive Director, National Committee for Employer Support of the Guard and Reserve. The Executive Director concurred, stated that actions were underway to implement the recommendations. The Executive Director stated that, for example, contract surveillance plans are being implemented; controls were initiated for accountability of items ordered and received under the fulfillment contract; standard operating procedures for ordering and receiving processes are being implemented; and training is being conducted for personnel responsible for contract administration.

Audit Response. Management comments from the Executive Director were responsive to the report recommendations. The actions that the Assistant Secretary and Executive Director are implementing should strengthen the management control environment of ESGR and enable it to operate more efficiently and affectively.

B.2. We recommend that the Commander, Defense Contracting Command-Washington:

a. Ensure future Employer Support of the Guard and Reserve fulfillment contracts are awarded in accordance with applicable Federal Acquisition Regulations.

b. Perform a review and initiate appropriate administrative action for the contracting officers who willingly made improper interpretations of and did not comply with the Federal Acquisition Regulation.

c. Ensure that contracting officers comply with Defense Contracting Command-Washington policies and procedures regarding sole-source justifications.

Commander, Defense Contracting Command-Washington. The Commander, DCC-W did not comment on Recommendation B.2. Therefore, we request that the Commander, DCC-W provide comments on the final report.

Appendix A. Scope and Methodology

This audit was performed in response to a July 28, 2004, memorandum from the ASD(RA) to the DoD Inspector General (Appendix B). ASD(RA) requested an audit of ESGR because of situations regarding the financial management and operations of the organization. Specifically, ASD(RA) requested that we review contracts awarded for the past 2 fiscal years, financial records, and the management and control environment of ESGR. ASD(RA) also requested our recommendations on how to improve the financial control environment and oversight of ESGR to improve efficiency and preclude a reoccurrence of the existing conditions. As a result, we evaluated the operations and the financial management of the ESGR and determined whether contracting and financial operations were conducted in accordance with applicable policies and regulations.

To obtain an understanding of ESGR operations, we visited, contacted, and conducted interviews with officials from the following organizations:

- ASD(RA);
- ESGR headquarters, and committees of Arizona, California, Georgia, North Carolina, and Tennessee;
- Defense Finance and Accounting Service;
- Defense Human Resource Activity;
- Defense Logistics Agency;
- DCC-W;
- Odyssey, Alpharetta, Georgia;
- TKCC, Fairfax, Virginia;
- Department of the Interior, National Business Center, Fort Huachuca, Arizona; and
- Department of the Treasury, FedSource, Baltimore, Maryland.

We reviewed procedures ESGR used to administer and manage operations, specifically the functions of financial management and contracting. We also reviewed ESGR documentation such as policies and procedures, operating memorandums and manuals, and other internal guidance.

We judgmentally selected for review a sample of 100 travel vouchers (50 from FY 2003 and 50 from FY 2004). We also judgmentally selected for review a sample of 80 expense vouchers (40 from FY 2003 and 40 from FY 2004). We reviewed the methodology and calculations ESGR used in preparing the travel and expense vouchers to determine if they were completed according to applicable policies and procedures.

We reviewed the fulfillment contracts with Odyssey; and the personnel services contracts with TKCC, FedSource, and AM and PM. We reviewed the contracting procedures DCC-W, the Department of the Interior, and the Department of the Treasury used in awarding contracts for ESGR. We reviewed contract and surveillance documentation such as basic contracts, their task orders and modifications, COR designation letters, statements of work, and sole-source justifications.

We reviewed Office of Management and Budget Circular A-123, "Management Accountability and Control," June 21, 1995, and DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, to determine policy guidance regarding management controls. In addition, we reviewed GAO "Standards for Internal Control in the Federal Government," November 1999, to highlight the standards for effective internal controls.

We reviewed the FAR and Defense FAR Supplement to identify guidance related to contract award and administration. We reviewed the DoD Financial Management Regulation to determine financial management policy and procedures. We reviewed the Joint Travel Regulations to determine Federal policies and procedures for temporary duty travel. We reviewed DoD Instruction 1100.21, "Voluntary Services in the Department of Defense," December 26, 2002, to determine policies and procedures governing volunteer service in the DoD.

We performed this audit from July 2004 through August 2005 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used data from the Appropriated Accounting System, generated by the Defense Logistics Agency from the Defense Finance Accounting Service Defense Business Management System, to determine the number and amount of ESGR financial transactions for FY 2003 and FY 2004. We also used data provided by Odyssey to determine the quantity and amount of items expended for the fulfillment contracts. We did not perform a formal reliability assessment of the computer-processed data because that was not part of our audit objectives. We traced the computer-processed data to source documentation to determine if transactions were complete, accurate, and supportable. We did not find errors that would preclude us from using the data to meet the audit objectives or that would change the conclusions in this report.

Use of Technical Assistance. The Quantitative Methods Division provided technical assistance to the audit staff in identifying judgmental samples of FY 2003 and FY 2004 ESGR reimbursement vouchers for travel and personal expenses.

Government Accountability Office High-Risk Area. The GAO has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management and DoD Contract Management high-risk areas.

Prior Coverage

During the last 5 years, GAO and the Army Reserve Internal Review have issued three reports related to the operations of ESGR. Additionally, GAO and the DoD Inspector General (IG) have issued numerous reports regarding contract award and administration. The following reports are those we considered most relevant to the issues discussed in this report. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

GAO

GAO Report No. GAO-05-456, "Interagency Contracting: Franchise Funds Provide Convenience, but Value to DoD is Not Demonstrated," July 2005

GAO Report No. GAO-05-274, "Opportunities to Improve Surveillance on Department of Defense Service Contracts," March 2005

GAO Report No. GAO-02-608, "Reserve Forces: DoD Actions Needed to Better Manage Relations between Reservists and Their Employers," June 2002

DoD IG

DoD IG Report No. D-2004-057, "Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington," March 18, 2004

Army Reserve Internal Review

Report No. 2002-37, "Follow-Up Audit of Financial Management National Committee of Employer Support for the Guard and Reserve (NCESGR), Practices, Army Reserve IR [Internal Review] Report 50-01," October 31, 2002

Report No. 50-01, "Audit of Financial Management Practices National Committee of Employer Support for the Guard and Reserve (NCESGR)," September 25, 2001

Appendix B. Assistant Secretary of Defense for Reserve Affairs Audit Request



RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

28 JUL 2004

MEMORANDUM FOR THE INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE

SUBJECT: Audit Oversight of the Office of the Employer Support of the Guard and Reserves

I am requesting an audit of the Headquarters, Employers Support of the Guard and Reserve (ESGR). Situations regarding the financial management and operations of the organization have been brought to my attention that cause me concern. Specifically, I am requesting that your audit include contracts over the past two fiscal years that have been let by the organization for various goods and services as well as the financial records, management and control environment of the office.

In addition to your review of these specific areas, I request your recommendations on how to improve the financial control environment and oversight of the ESGR to improve efficiency and to preclude a reoccurrence of the existing conditions. Members of my staff are available to assist you in this effort.

I request that you expedite this review. Please provide an interim response to me by August 9, 2004.


T. F. Hall

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director, Defense Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness
 Assistant Secretary of Defense (Reserve Affairs)
 Executive Director, National Committee for Employer Support of the Guard and Reserve
 Director, Defense Human Resources Activity
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Office of the Administrative Assistant to the Secretary of the Army
 Commander, Defense Contracting Command-Washington
Chief, Army Reserve/Commanding General, U.S. Army Reserve Command
Director, Army National Guard
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Chief of Navy Reserve/Commander, Navy Reserve Force
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Chief, Air Force Reserve/Commander, Air Force Reserve Command
Director, Air National Guard
Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Chief, National Guard Bureau

Non-Defense Federal Organizations

Office of the Inspector General, Department of Interior
Office of the Inspector General, Department of Treasury
Office of the Inspector General, General Services Administration
Office of Management and Budget
Government Accountability Office

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Assistant Secretary of Defense for Reserve Affairs and National Committee for Employer Support of the Guard and Reserve



RESERVE AFFAIRS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

AUG 19 2005

MEMORANDUM FOR PROGRAM DIRECTOR, READINESS AND LOGISTICS
SUPPORT, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Management of the National Committee for Employer
Support of the Guard and Reserve (Project No. D2004-D000LA-0209.000)

Attached are the OASD Reserve Affairs comments on the subject report, incorporating the input from the Executive Director, National Committee for Employer Support of the Guard and Reserve (NCESGR).

We fully concur with the findings of the subject report. During the course of the inspection, many of the issues that were identified have been addressed, and the recommendations contained in the report are well underway to being implemented, or are completed. We will endeavor to implement all the recommendations to correct the findings of the inspection team.

I am deeply concerned, however, with the proposed distribution list, contained in Appendix C. As indicated in my letter to the Inspector General, in Appendix B, I requested the assistance of your office due to concerns that had been identified by my staff. This report is the result of my inquiry. I have considered this to be an internal audit, with the results as privileged communication. Your proposed distribution list, although possibly appropriate if the audit had been generated from outside inquiries, would only serve to discredit the reputation of the staff and volunteers of ESGR, and would have the potential to discredit the hardworking volunteers across the Nation, and to severely damage their ability to promote employer support of the National Guard and Reserve members, upon which this Nation is depending so heavily. I most strongly recommend that the distribution of this report be limited to the Under Secretary of Defense for Personnel and Readiness, my office, the Executive Director, NCESGR, the Director Human Resources Activity, and the Commander, Defense Contracting Command, Washington. I further strongly recommend that this audit and its findings be restricted from public access, and not be included on the DoD Inspector General website. Since we asked for this investigation, I see no advantage to giving it wide distribution.



On behalf of all the members of the Reserve Affairs team, the National staff of ESGR and the volunteer committees, I would like to express our sincere appreciation. The inspection team was extremely professional, thorough, diplomatic, and courteous in their inspection. Their support has helped to strengthen the ESGR organization and to improve the management of precious DoD resources.


T. F. Hall

Attachments
As stated

RESPONSE TO SPECIFIC ESGR REFERENCES
in the
Draft Report on Management of the National Committee for Employer Support of the
Guard and Reserve (Project No. D2004-DOOLA-0209.000)

**Findings: Employer Support of the Guard Reserve Administration
and Management of Operations**

A.1. We recommend that the Assistant Secretary of Defense for Reserve Affairs develop and implement procedures for providing oversight, direction, and control of National Committee for Employer Support of the Guard and Reserve operations, as established by DoD Directive 1250.1.

ASD/RA response: Concur; my staff and I have been providing intensive oversight, direction and control since I requested the intervention by your organization in July of 2004. Standard operating procedures, management oversight and financial methodologies were all developed by my staff in concert with ESGR, and provide the backbone of the current ESGR internal controls. I will continue to fulfill the duties and responsibilities contained in the above directive.

A.2. We recommend that the Executive Director, National Committee for Employer Support of the Guard and Reserve:

a. Implement a Management Control Program that fully complies with DoD Directive 5010.38.

ESGR Management response: Concur. ESGR has made considerable improvements to our management control plan and has been a work in progress. The annual statement of assurance is the basis of our management control plan. Process improvements with associated internal controls are being implemented. Written guidance, reporting requirements (e.g., ORF), and formal instructions and directives are being revised to best incorporate solid management controls. We recognize that a quality management control plan will evolve as we refine our processes. ESGR's management control program will be in place no later than 1 October 2005.

b. Finalize an organizational chart that clearly defines organizational structure and reporting relationships.

ESGR Management response: Concur. We now have an organizational chart that accurately captures the entire national staff structure and clearly defines reporting relationships and authorities. The required organizational structure for the state and territory committees will be completed by 1 October 2005.

c. Develop headquarters-level standard operating procedures. At a minimum, the standard operating procedures should incorporate all operating functions, policies, procedures, controls, and organizational relationships.

ESGR Management response: Concur. ESGR's standard operating procedures will be completed by 1 October 2005.

d. Require each volunteer to sign, and periodically update, a volunteer agreement form in accordance with DoD Instruction 1100.21.

ESGR Management response: Concur. ESGR has already initiated action IAW DoD Instruction 1100.21. Suspense of 6 September has been communicated to the field for completion of forms. On 15 September our volunteer database will be reviewed and all volunteers who have not submitted the necessary form will be removed from our list of active volunteers. After 30 September 2005, only those volunteers who have signed the volunteer agreement form will be recognized as ESGR volunteers.

e. Develop and issue a position description for the Regional Deputy Directors describing their roles and responsibilities.

ESGR Management response: Completed. Position descriptions currently exist for the Regional Deputy Directors (RDD) and the assistants to the RDDs.

f. Perform an analysis to determine whether it is more cost effective to retain the contract specialist or the contractor, who are both fulfilling the same requirements, and retain only the most cost-effective personnel.

ESGR Management response: Concur. ESGR performed the analysis last year and determined a GS contract specialist best supports our requirements. Position announcement closed 15 August 2005.

g. Establish controls to ensure that all travel vouchers are prepared and approved in accordance with the Joint Travel Regulations and the Joint Federal Travel Regulations.

ESGR Management response: Concur. ESGR (RDDs & Finance) reviews all vouchers before presentation to DFAS for payment. Additional JTR training for the Finance Staff begins in September 2005. Additionally, guidance is being developed to assist individual customer users with the proper preparation and submission of travel vouchers.

h. Develop a property management program that requires specific accountability for nonexpendable items, pilferable items, information technology equipment, and other items as identified by the Employer Support of the Guard and Reserve.

ESGR Management response: Concur. ESGR's accountability plan for non-expendable equipment, to include equipment purchased for and issued to ESGR Committees (with U.S. Government funds) will be in place by 1 October 2005.

i. Develop and implement procedures that describe the roles and responsibilities of all personnel involved in the processing of travel and personal expense reimbursement vouchers.

ESGR Management response: Concur. The majority of noted audit deficiencies occurred prior to 1 October 2004. Procedures are being improved to clearly define the process and associated responsibilities. Internal Finance SOP, which covers this subject in detail, was issued to the field on 30 September 2004 and will be periodically updated to reflect improved procedures.

Findings: Award and Administration of the Fulfillment and Personnel Services Contracts

B.1. We recommend that the Executive Director, National Committee for Employer Support of the Guard and Reserve:

a. Develop a surveillance plan for current and future fulfillment and personnel services contracts. At a minimum the surveillance plan must specify all the work requiring surveillance and the method of surveillance.

ESGR Management response: Concur. A surveillance plan has been included in a future fulfillment contract. This plan will be used to institute surveillance activities on the current fulfillment contract. Additionally, a school-trained Contracting Officer Representative (COR) now oversees the administration of all aspects of the personnel services contract.

b. Account for all items ordered and received under the fulfillment contract with supporting documentation.

ESGR Management response: Concur. With advice we've received from DHRA General Counsel, ESGR has initiated a special addendum to the standard volunteer agreement for the listed volunteers to explicitly authorize and convey the responsibility to place orders and accept goods delivered by a contractor on behalf of DoD. ESGR will achieve the desired accountability by establishing internal controls and audit trails for large orders as well as a random sampling of minor orders by 1 October 2005.

c. Develop a list of tasks that clearly defines the responsibilities of the California-based Information Technology and Administrative Services position for inclusion in the current personnel services task order as well as future task orders or contracts.

ESGR Management response: Concur. Completion date 30 September 2005.

d. Develop standard operating procedures for the ordering and receiving processes associated with the fulfillment contract.

ESGR Management response: Concur. An ESGR Instruction to volunteers addressing fulfillment item ordering and receipt will be published no later than 1 October 2005.

e. Fulfill orders according to the listing of items in the 2005 fulfillment contract or modify the contract to incorporate an updated listing of items.

ESGR Management response: Concur. Contract has been modified. Updated lists will be included in new contracts that go into effect 1 October and 1 December 2005.

f. Ensure the contracting officer representatives for the fulfillment and personnel services contracts comply with roles and responsibilities defined in the contracting officer representative appointment letter.

ESGR Management response: Concur. ESGR has reviewed the COR appointment letter roles and responsibilities and will ensure compliance. A monthly update is now briefed to the Deputy Executive Director. A periodic review will be conducted on the current status of all contracts.

g. Develop a list of allowable Other Direct Costs as well as dollar limitations for those costs for inclusion in the current personnel services task order as well as future task orders or contracts.

ESGR Management response: Concur. A list specifying "Other Direct Costs" and any associated dollar limitations has been developed for the current personnel services contract and will be submitted as a contract modification to the Contracting Officer authority. Future personnel service contracts will include similar specific listings as part of the initial contract.

h. Ensure that all personnel responsible for contract administration are trained to perform their responsibilities associated with [contract] surveillance and travel regulations.

ESGR Management response: Concur. ESGR is in the process of filling the GS contract position vacancy; this employee will monitor and surveil contracts on a continuing basis. In addition, all CORs assigned to ESGR contracts have completed COR training, and one additional ESGR officer completed COR training in June 2005. CORs will be included with ESGR Finance Office travel regulation training.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Readiness and Logistics Support prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Wanda Scott
Shelton Young
Richard Vasquez
Sean Davis
Suk Webb
Michael Roark
Mackensie Ryan
Julie Zarlengo
Nicole Shrift
Jillisa Milner
Sharon Carvalho
Kandasamy Selvavel
James Hartman